Ping An's Value Inside Out
(III)

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Important Notes

Cautionary Statements Regarding Forward-Looking Statement

To the extent any statements made in this presentation containing information that is not historical are essentially forward-looking. These forward-looking statements include but are not limited to projections, targets, estimates and business plans that the Company expects or anticipates will or may occur in the future. These forward-looking statements are subject to known and unknown risks and uncertainties that may be general or specific. Certain statements, such as those including the words or phrases "potential", "estimates", "expects", "anticipates", "objective", "intends", "plans", "believes", "will", "may", "should", and similar expressions or variations on such expressions may be considered forward-looking statements.

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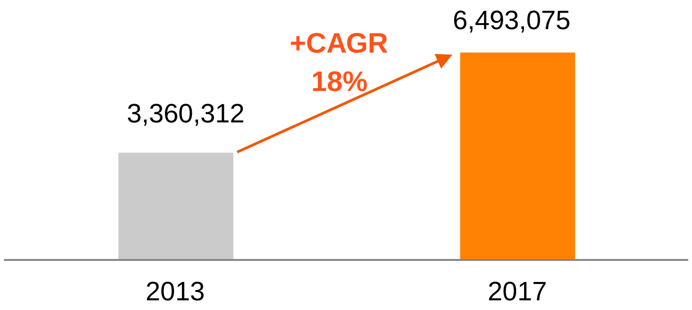
Specification of Disclosure

Value of new business stated in this presentation is of life and health insurance business unless otherwise specified, which is comprised of insurance business from Ping An Life, Ping An Annuity and Ping An Health.

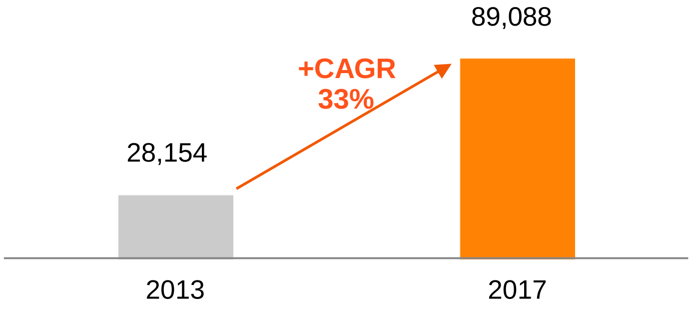
Growth rates disclosed in the charts and tables of this presentation are annual compound growth rates unless otherwise specified.

Ping An’s Booming Business

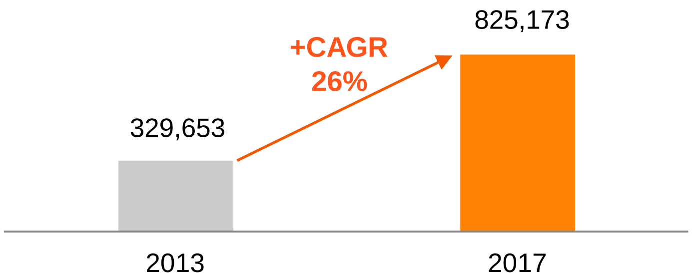
Total Assets



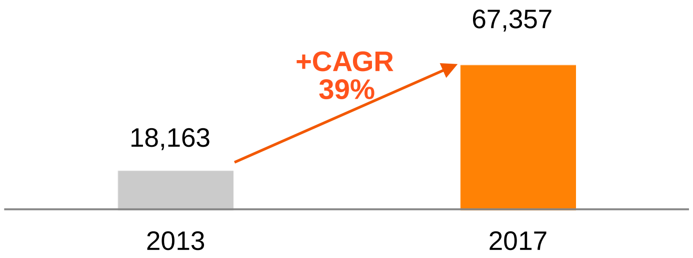
Net Profit Attributable to Shareholders of Parent Company



Embedded Value



NBEV



Note: (1) EV and NBEV of 2013 are under Solvency I definition. Ping An has started to disclose EV and related data under C-ROSS definition as required by regulation.
(2) Source of data: Ping An’s annual reports.

Recap on Previously Addressed Life Insurance Topics

1 **Is insurance consumption upgrade sustainable?** → **Environmental Changes Encourage Upgrade**

- ✓ Aging population and inflating medical costs
- ✓ Increasing income and insurance awareness
- ✓ Low insurance penetration and coverage

2 **Is Ping An Life's steady growth sustainable during economic downturn?** → **Sustainable Future Profit**

- ✓ Resilient solvency position
- ✓ Massive balance of residual margin
- ✓ Excellent business quality and protection focused
- ✓ Integrated financial and technology-empowered model

3 **How to interpret residual margin?** → **Vital Source of Profit and Capital**

- ✓ Balance and release of residual margin are vital parts of capital and profit
- ✓ RM and VIF are both PV of future profit with differences in discount rate, tax and cost of capital

4 **Are EV assumptions prudent and reasonable?** → **Prudent Assumptions**

- ✓ Prudent risk discount rate
- ✓ Account for long-term deterioration in morbidity rates
- ✓ Prudent assumptions adding value proven by sequential positive operating variance

Regulation Reforms Promote Disclosure Enhancement

Return to insurance nature and tightened regulation

Group
- **IFRS9**
  - Implemented in Jan. 2018

Life
- **Document 76**
  - Announced in Sep. 2016
- **Document 134**
  - Announced in Jun. 2017
- **Document 19**
  - Announced in Apr. 2018

P&C
- **Reform on commercial auto insurance pricing**
  - Ongoing since 2015

Ping An proactively enhances disclosure

- **Operating profit**
  - Remove short-term fluctuations to capture underling results and trend
- **Source of profit**
  - Analysis of the sources of Life profit
- **Movement of residual margin**
  - Disclose the drivers of residual margin changes
- **Movement of available funds**
  - Disclose the drivers of available funds changes
- **ROEV**
  - Reflects underlying EV growth

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1. How to Interpret Operating Profit

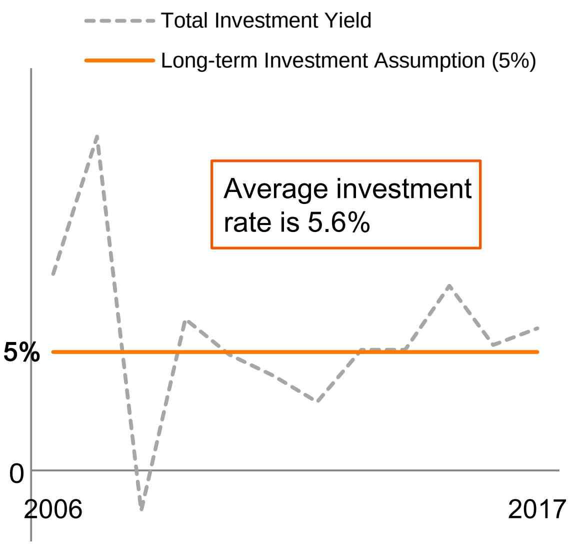
- Background of operating profit
- Source of earning of Life
- Movement of residual margin
- Profit drivers of non-life businesses

Operating Profit Provides a Clearer View of Underlying Results and Trends

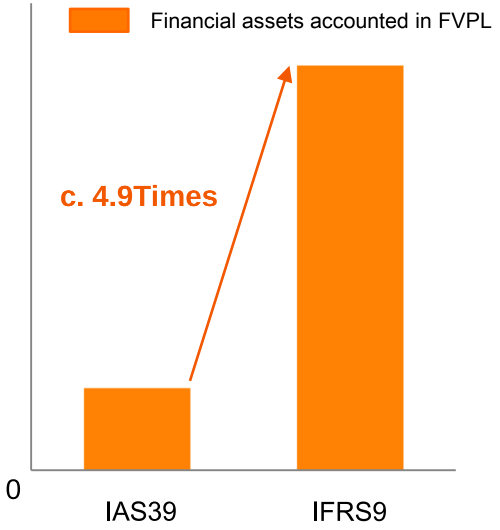
Operating Profit =

Net Profit - Short-term Investment Variance[(1)] - Impact of Discount Rate Change - One-off Material Non-operating Items

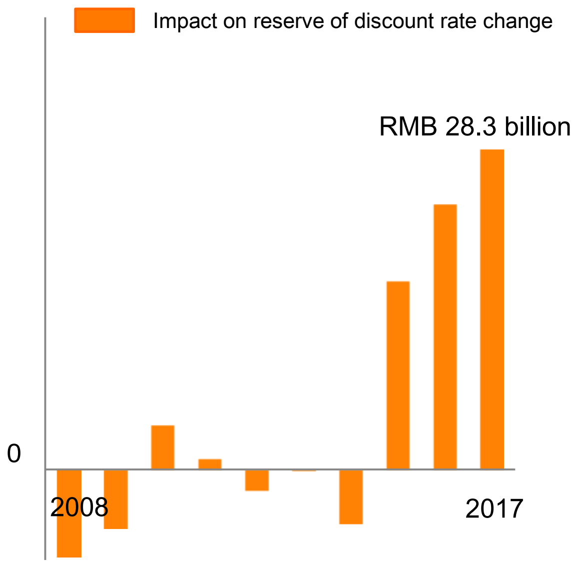
Hugh Investment Return Volatility



More Fluctuation under IFRS 9



Substantial Impact of Discount Rate Change



Note: (1) Short-term investment variance is the variance between actual investment return of L&H and the ultimate investment return assumption (5%), net of associated relevant impact on insurance and investment contract liability.

Investment Variance and Discount Rate Change Mostly Impact L&H

For the 12 months ended 31/12/2017 (in RMB Million)	Life & Health	P&C	Banking	Asset Management	Fintech & Healthtech	Other and elimination	Group
Net profit attributable to shareholders of the parent company	**35,658**	**13,307**	**13,449**	**15,924**	**14,621**	**(3,871)**	**89,088**
Minority interests	485	65	9,740	481	68	53	10,890
Net profit (A)	**36,143**	**13,372**	**23,189**	**16,403**	**14,689**	**(3,818)**	**99,978**
Excluding:							
Short-term investment variance (B)	4,532						4,532
Impact of discount rate change (C)	(21,213)						(21,213)
Impact of one-off material non-operating items (D)					10,850 [1]		10,850
Operating profit (E = A – B – C – D)	**52,824**	**13,372**	**23,189**	**16,403**	**3,839**	**(3,818)**	**105,809**
Operating profit attributable to shareholders of the parent company	**52,128**	**13,307**	**13,449**	**15,924**	**3,771**	**(3,871)**	**94,708**
Operating profit attributable to minority shareholders	696	65	9,740	481	68	53	11,101

Note: (1) The one-off material non-operating item in 2017 is referred to impact of the restructuring of Ping An Good Doctor.
(2) Figures may not match the calculation due to rounding.

Operating Profit of L&H is Mainly Driven by Release of Residual Margin and Operating Variance

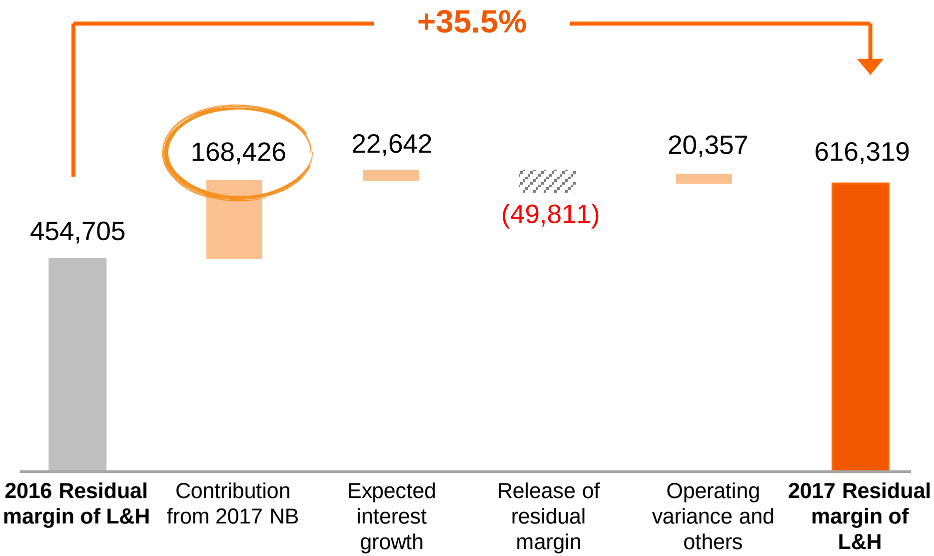
(in RMB Million)	2017	Portion(%)	2016	Portion(%)
Return on net worth	7,357	10.1%	5,648	10.5%
Spread income	5,637	7.7%	3,715	6.9%
Release of residual margin	49,811	68.3%	38,202	70.9%
Operating variance and others	10,108	13.9%	6,317	11.7%
Operating profit before tax	**72,912**	**100.0%**	**53,882**	**100%**
Income tax	(20,088)		(13,365)	
Operating profit after tax	**52,824**		**40,518**	

Note: Figures may not match the calculation due to rounding.

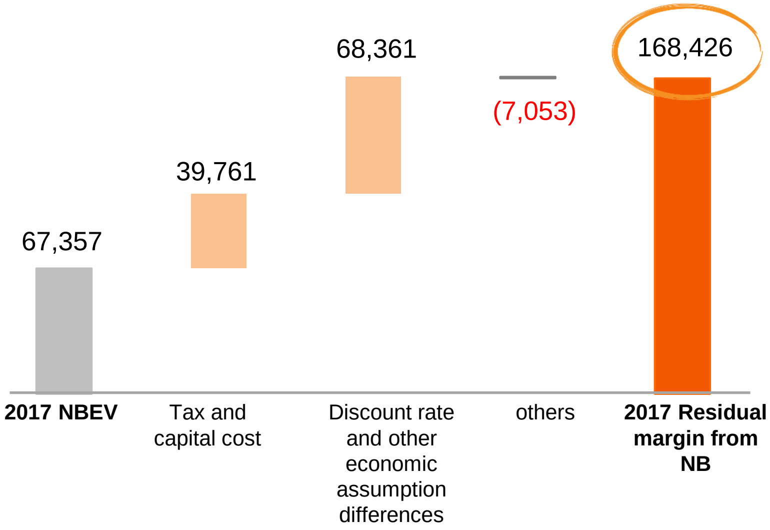
Residual Margin Growth is Driven by Quality New Business

(in RMB Million)

Movement of Residual Margin



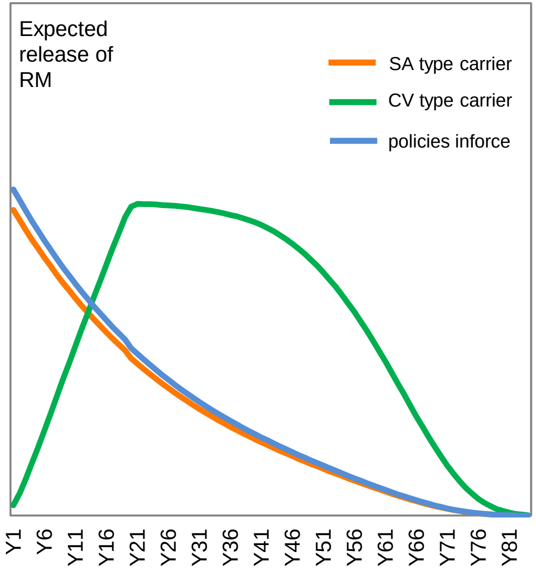
Reconciliation from NBEV to RM of NB



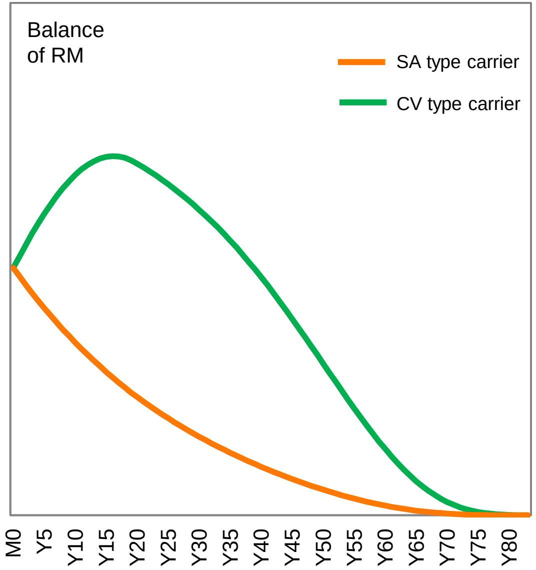
Note: Figures may not match the calculation due to rounding.

RM Release Pattern Varies by Carriers. High-value Business is Still Able to Maintain High RM Balance Even at High Rate of Release

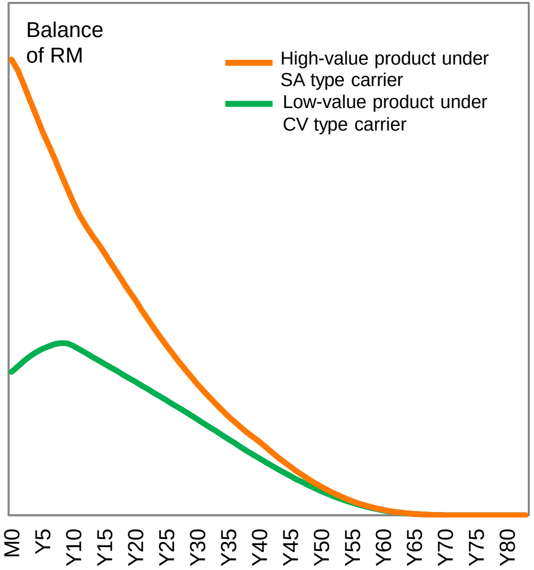
RM release pattern of SA type carrier is in line with pattern of # of policies change, which serves as carrier of most PA's products



For the same set of policies, the higher the rate of release, the lower the remaining balance.



High-value business is still able to maintain high RM balance even at high rate of release

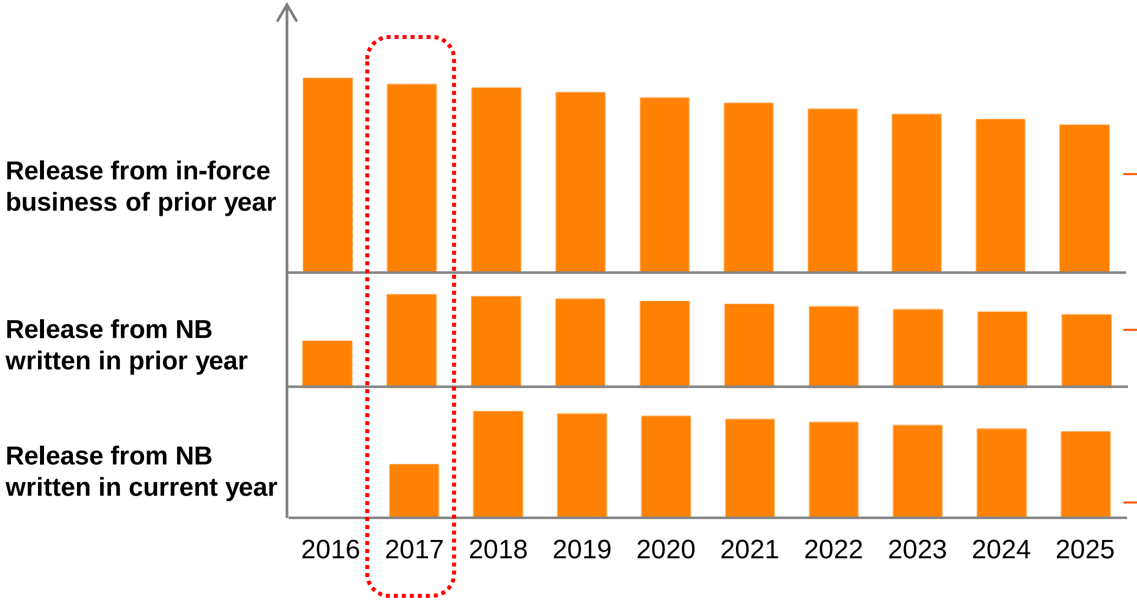


Note: SA = Sum-Assured; CV = Cash Value.

RM Release is Mostly Driven by In-force Business. New Business is Key to Future Growth

Residual Margin Release (RMR)

= RMR from in-force business of prior year + RMR from NB issued in prior year + RMR from NB issued in current year



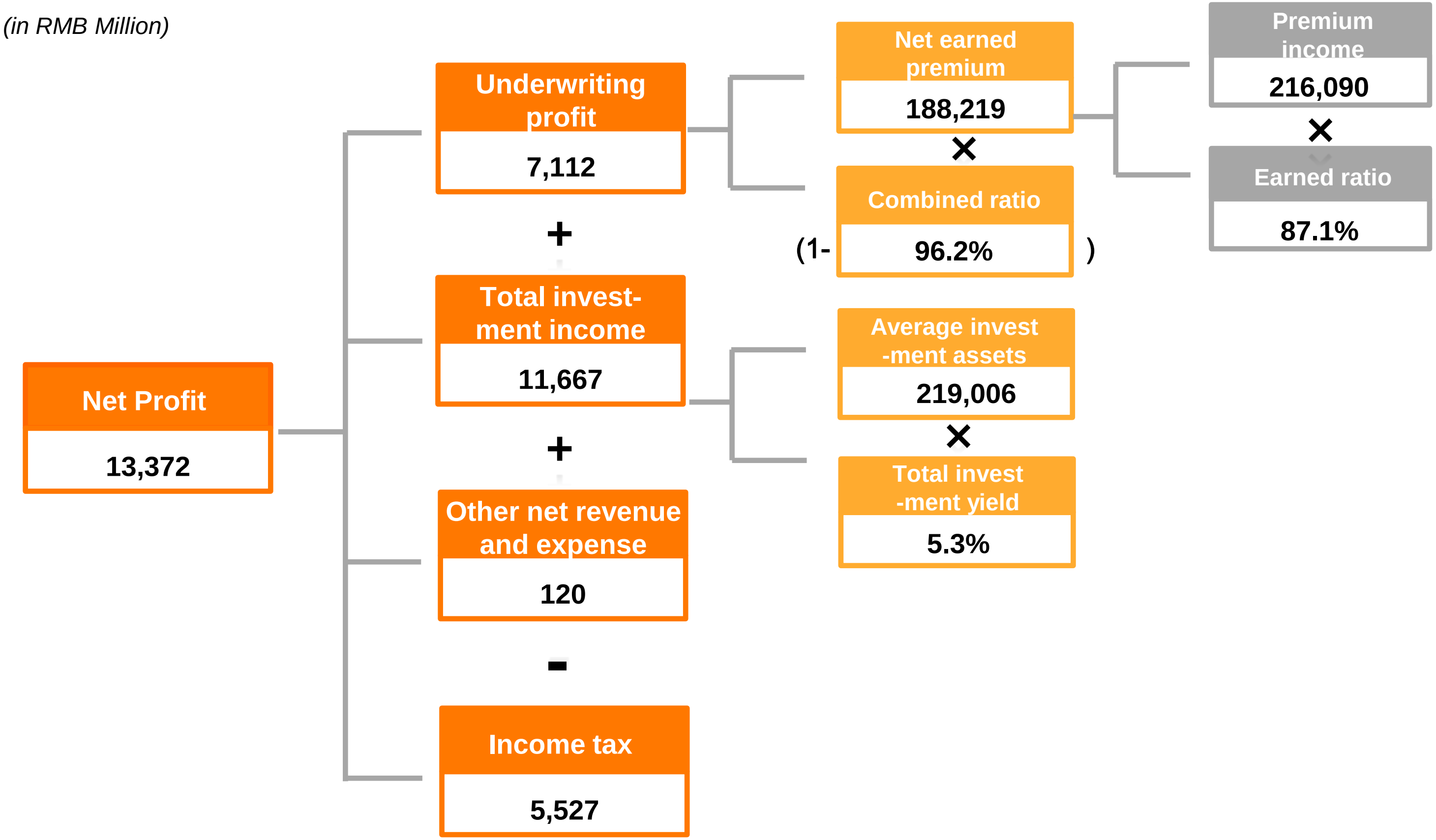
- Decreases as # of in-force business decreases

- The RMR exposure is one whole year in the 2nd year and much higher than exposure in the 1st year, which is less than one year

- Affected by business scale and mix
- The earlier the effective month, the higher the RMR to the effective year

Operating Profit Drivers of P&C Business

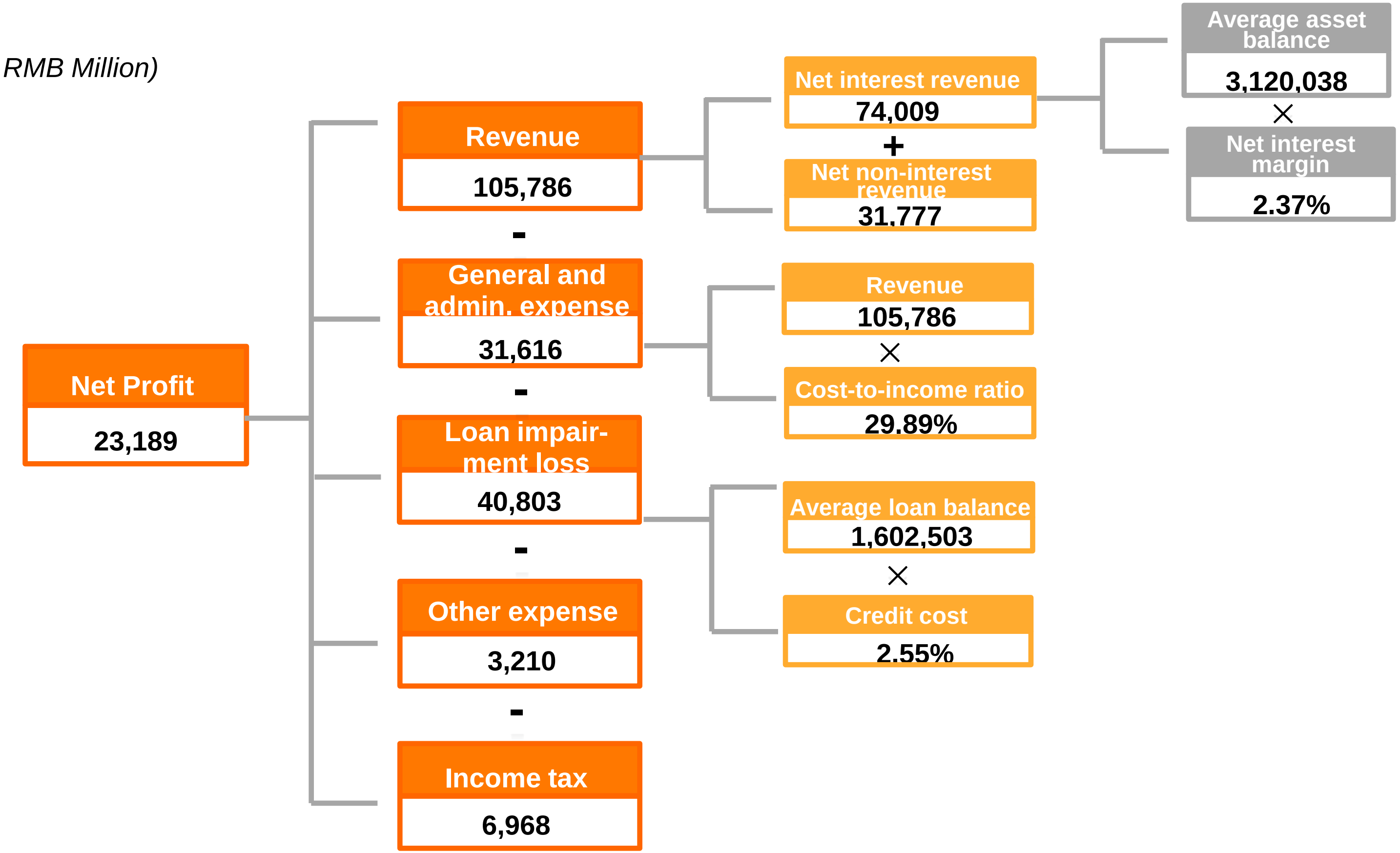
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Banking Business

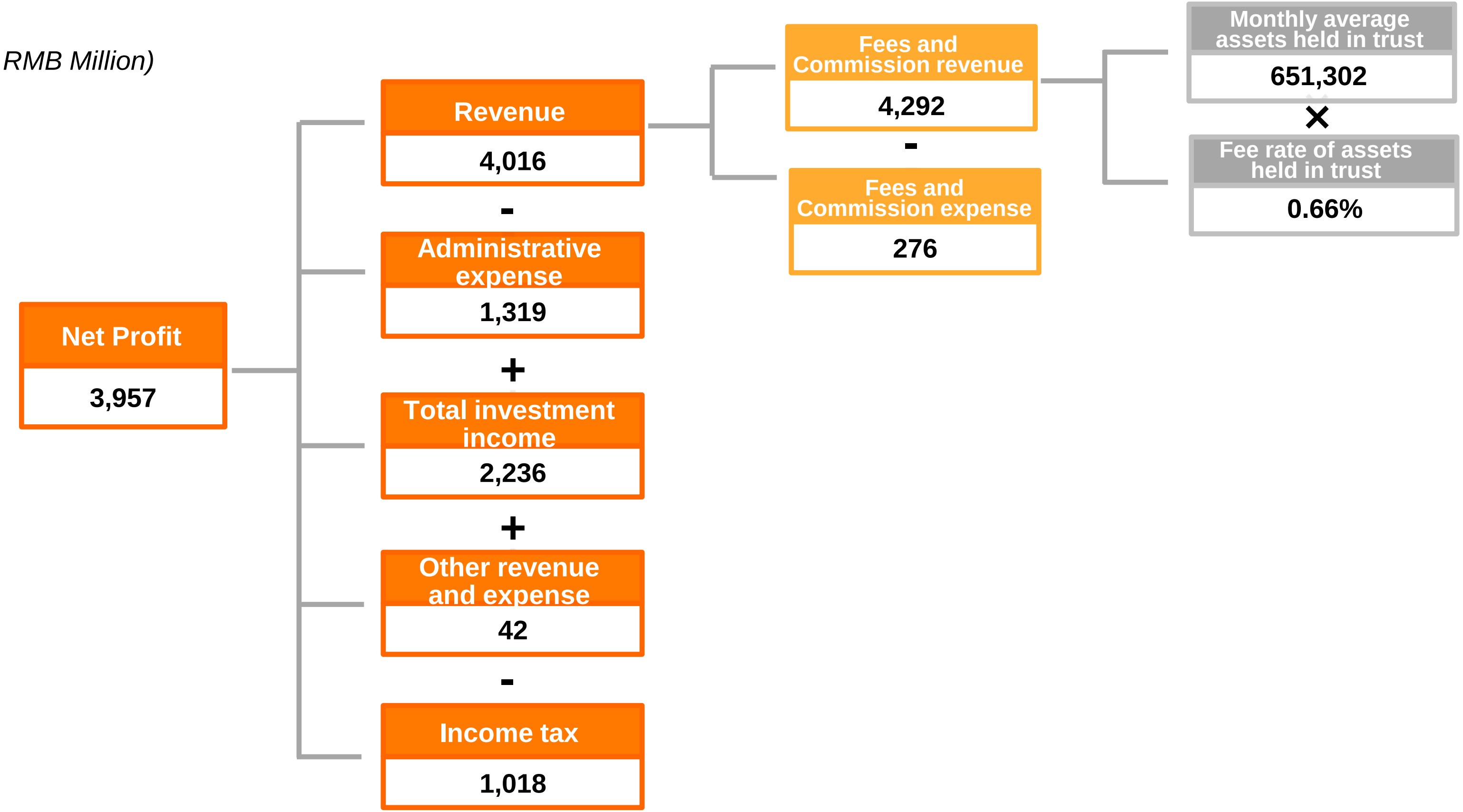
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Trust Business

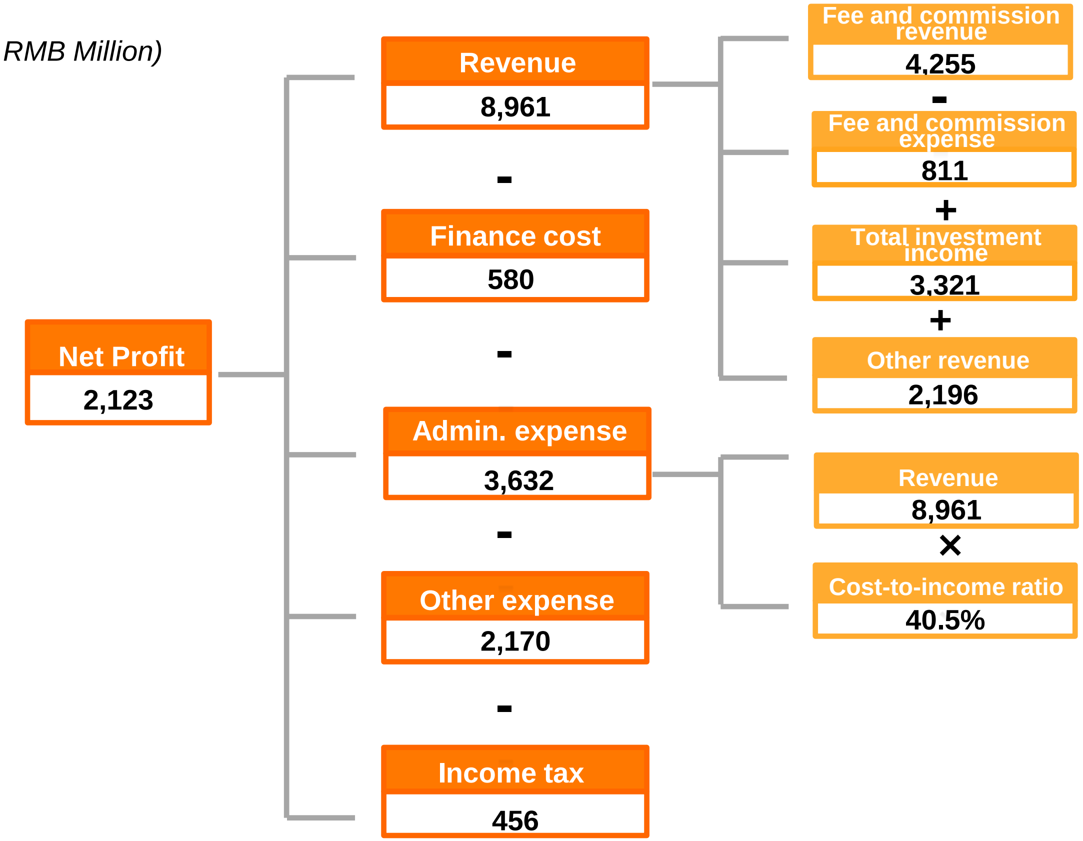
(in RMB Million)



Note: Figures may not match the calculation due to rounding.

Operating Profit Drivers of Securities Business

(in RMB Million)

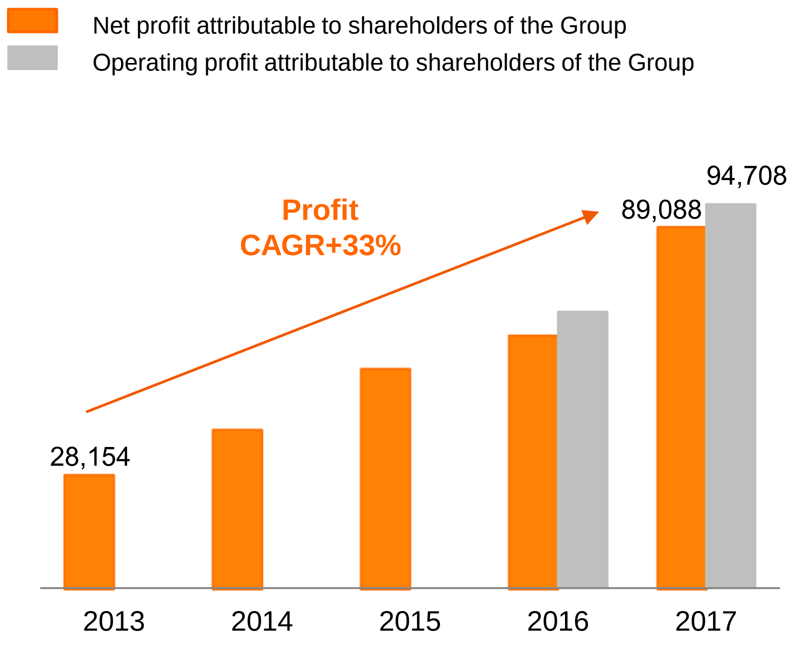


Note: Figures may not match the calculation due to rounding.

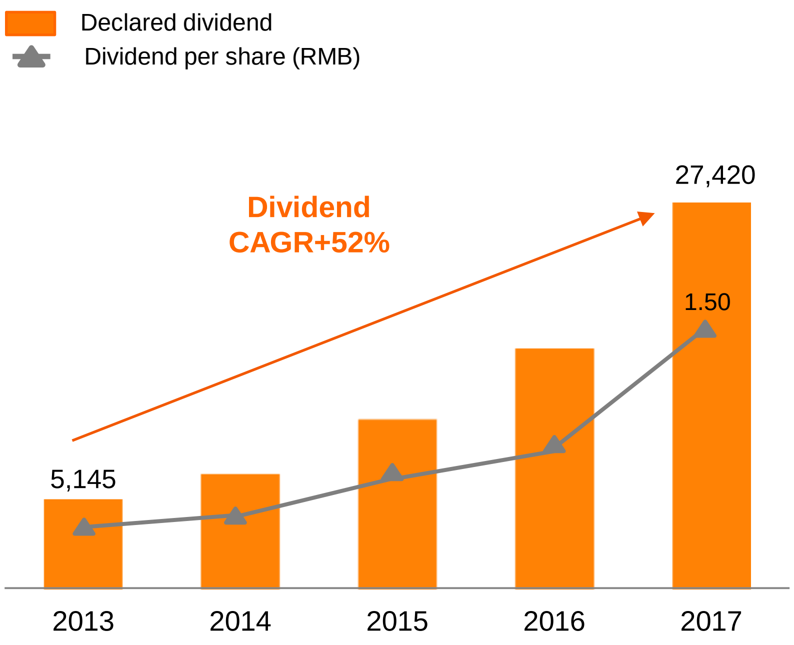
Dividend Increased with Profit Growth

(in RMB Million)

Profit Continued to Rise



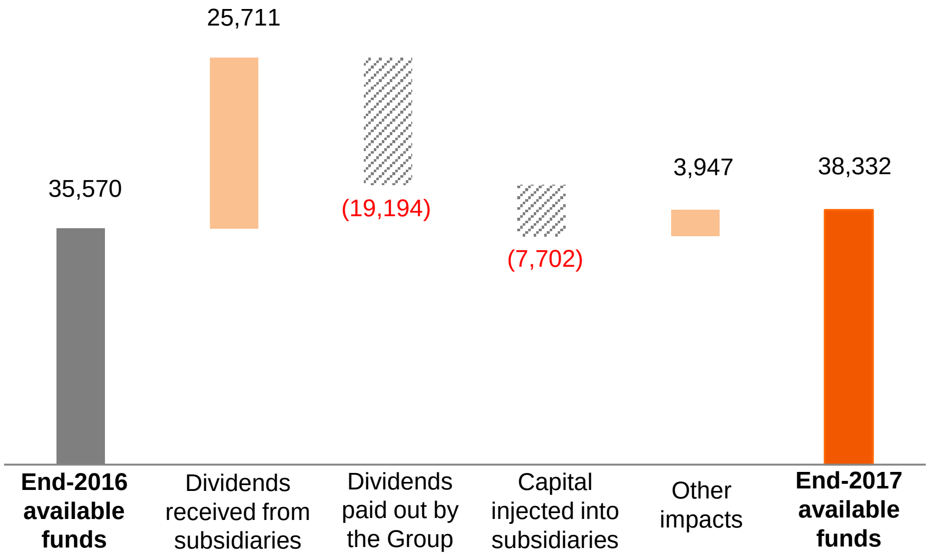
Dividend Increased with Profit Growth



Diversified Profit Source Supports Sustainable Dividend Growth

(in RMB Million)

Abundant Available Funds

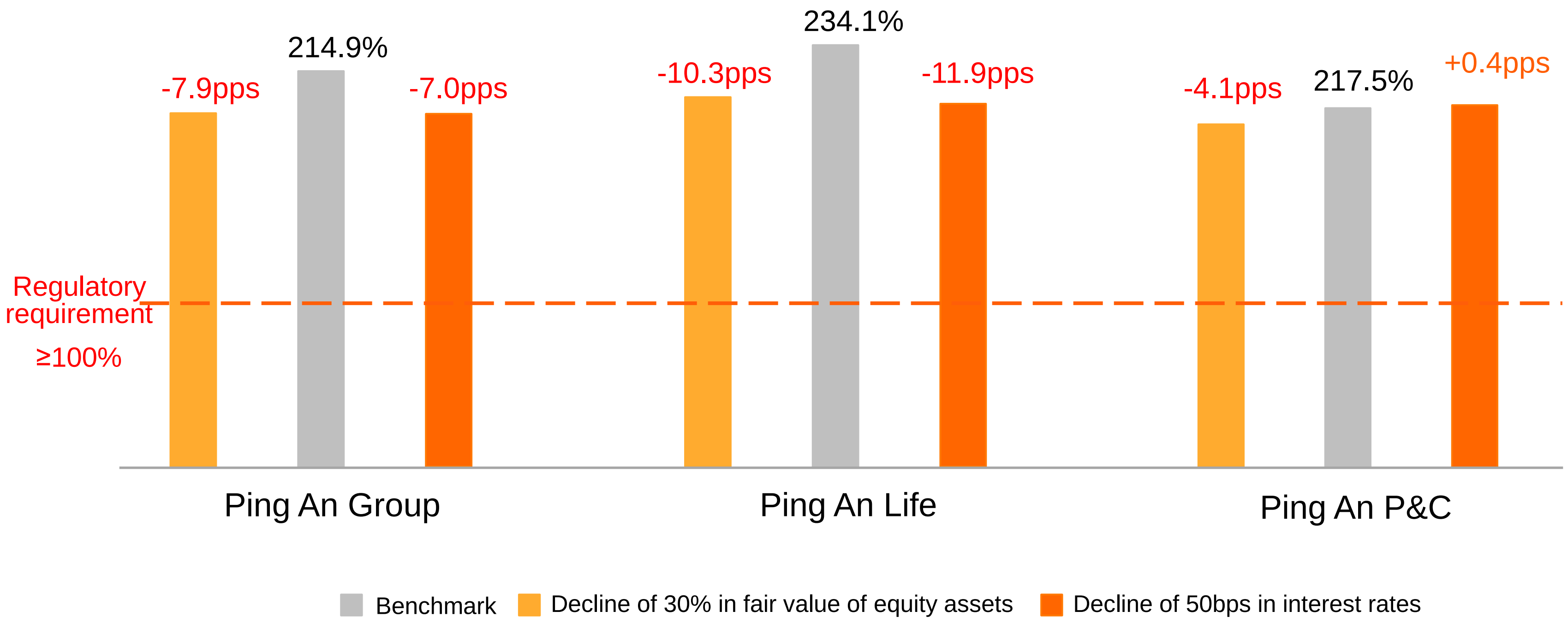


Diversified Profit Source

	2017	2016
L&H	55.0%	58.9%
P&C	14.1%	18.5%
Banking	14.2%	19.2%
Asset management	16.8%	13.8%
FinTech&HealthTech	4.0%	-4.8%
Other and elimination	-4.1%	-5.6%
Group	100.0%	100.0%

Note: (1) The available funds of the parent company includes bonds, equity securities, bank deposits and cash equivalents held by the parent company. The capital is invested in subsidiaries, used for daily operations, or paid out as dividends.
(2) Dividends received from subsidiaries include RMB 17,356 million from Ping An Life, RMB 3,030 million from Ping An Property & Casualty, RMB 1,345 million from Ping An Bank, and RMB 2,500 million from Ping An Trust.

Resilient Solvency Reduces Capital Constraints on Dividend



Recap

Stability

- Remove short-term fluctuation
- Reflect business results and trends

Predictability

- L&H profit growth is mainly driven by solid growth in RM release and operating variances
- Non-life businesses have clear drivers of growth

Operating Profit

Steady Dividend

- Dividend growth consistent with operating profit growth
- Diversified profit source and low solvency constraints

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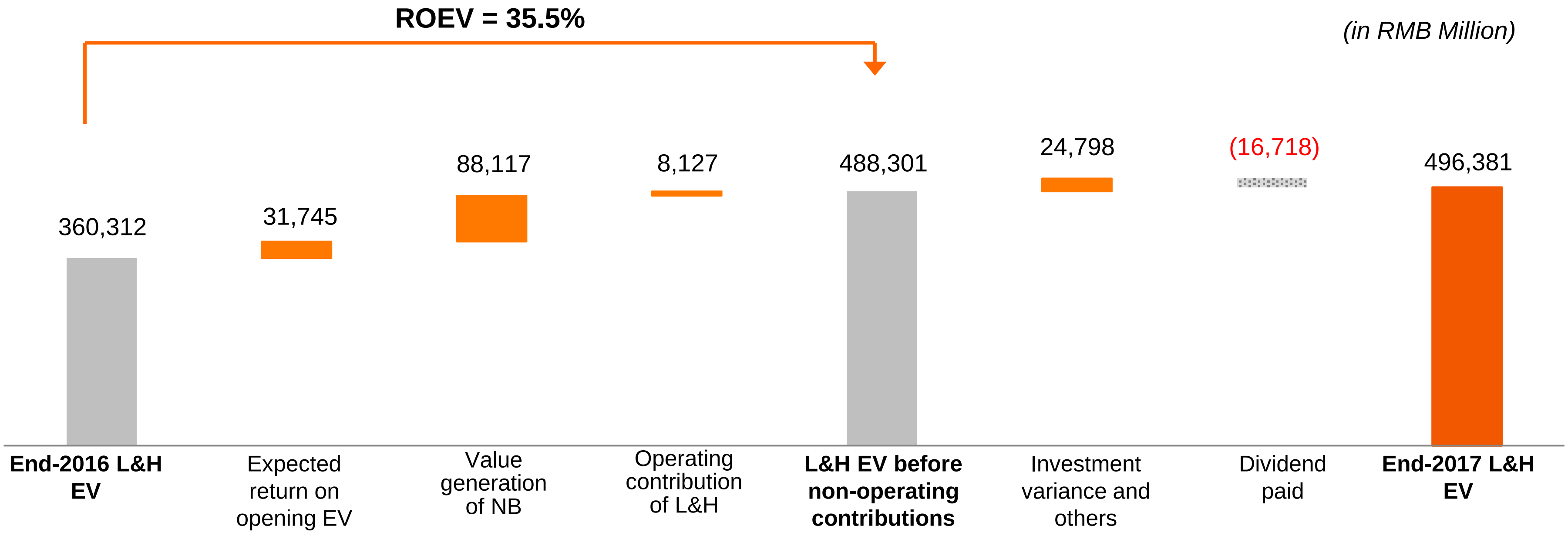
ROEV Reflects Underlying EV Growth

- L&H ROEV = L&H EV Operating Profit ÷ Opening EV
- L&H EV Operating Profit = Expected return on opening EV + Value generation of NB + Operating contribution of L&H



Note: Operating contribution of L&H includes Operating assumption and model changes, as well as Operating variances and others.

L&H Achieved Superb ROEV in the Past Five Years

(in RMB Million)		2017	2013-2017 Average
Opening EV	**[1]**	**360,312**	
EV operating profit	**[2]=[3+…+6]**	**127,989**	
Expected return on opening EV	[3]	31,745	8.4%
Expected return on VIF = *Opening VIF x RDR(11%)*		25,340	6.8%
Expected return on ANA and etc.		6,405	1.7%
Value generation of NB	[4]	88,117	16.2%
Operating assumptions and model changes	[5]	(758)	-0.6%
Operating variance and others	[6]	8,886	0.7%
ROEV	**[7]=[2]/[1]**	**35.5%**	**24.7%**

Note: (1) Opening VIF is referred to the opening balance of value of in-force; RDR is referred to the risk discount rate.
(2) Figures may not match the calculation due to rounding.

Prudent Risk Discount Rate Led to High Expected Return

- Risk discount rate (RDR) should reflect the level of uncertainty in future profits
- Expected return is positively correlated to the level of RDR and VIF as % of EV

Year	Risk Discount Rate (RDR)	10-year CGB Yield	Risk Premium
2008	11.5%	2.9%	8.6%
2009	11.0%	3.8%	7.2%
2010	11.0%	4.0%	7.0%
2011	11.0%	3.5%	7.5%
2012	11.0%	3.6%	7.4%
2013	11.0%	4.6%	6.4%
2014	11.0%	3.7%	7.3%
2015	11.0%	2.9%	8.2%
2016	11.0%	3.0%	8.0%
2017	11.0%	3.9%	7.1%
10-year Average	**-**	**-**	**7.5%**

✓ **Excellent risk management:**

SARMRA ranks #**2**

✓ **High business quality:**

Low investment sensitivity and Interest Margin as % of NBEV

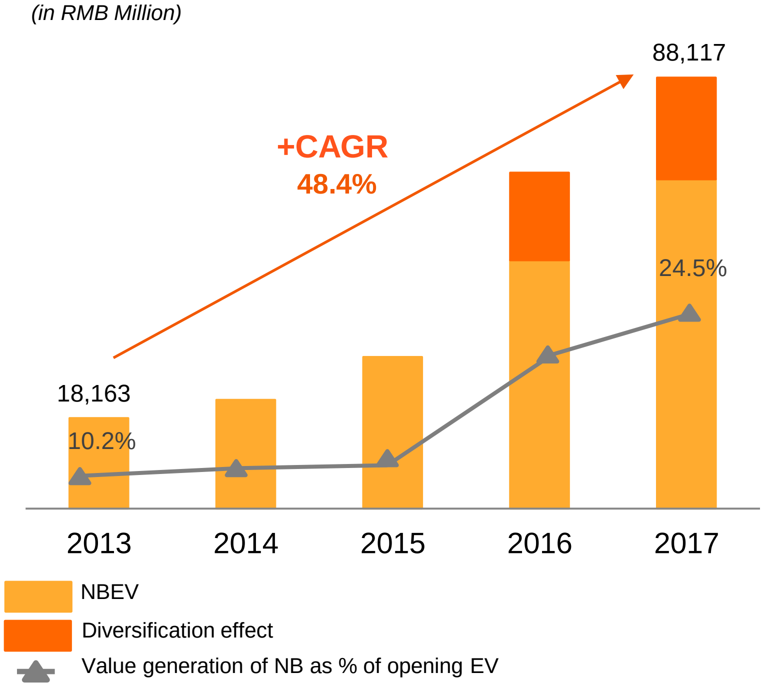
✓ **Low profit volatility vs peers:**

Ping An Group 11.3% **<** Listed peers 48.9%

Note: (1) Yields of 10-year CGB above are as at the end of each year;
(2) Risk premium = RDR (Risk Discount Rate) - yield of the 10-year CGB.
(3) Profit volatility is calculated as the standard deviation of net profit growth over 2013-2017; Market peers include China Life, CPIC, Taiping and NCL; Sources: corresponding annual reports.

Underpenetrated Market and Leading Advantages Contributed to Sustained NBEV Growth

Sustainable NBEV Growth



The method of EV valuation under C-ROSS states:

- Capital requirement of NB must be calculated at **policy level**, while that of in-force can be calculated at **company level**
- Capital requirement calculated at policy level **>** at total NB level **>** at company level, which generates **diversification effect**.

Example:

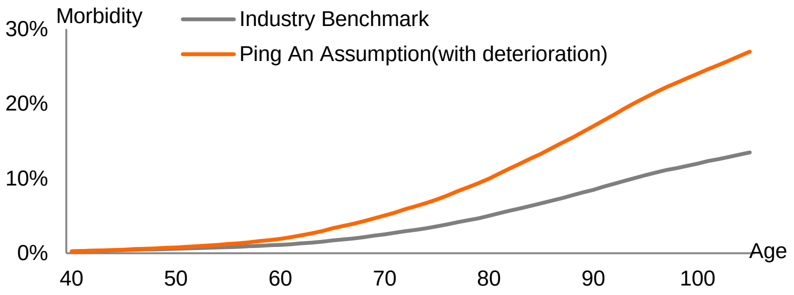
		Policy1	Policy2	Policy	Company
		Capital calculation level			
[A]	**RES+DPL**	250	300	550	550
[B]	**RES+MC+ DTL**	300	200	500	500
[C]	**CV+DTL**	75	325	400	400
Liability + RC = MAX(A,B,C)		300	325	625	550

Liability+RC is lower calculated at company level

Note: (1) Above figures from 2013 to 2015 are based on Solvency I, while those from afterwards are based on C-ROSS

Prudent Assumptions and Excellent Management Drove High Operating Variance

Morbidity Factored in Long-term Deterioration



Expanding and Enriching Product Types

2013
- With the help of rate marketization, launch Ping An Fu for mid to high-end protection market

2014
- Ping An Fu upgrade,
- Includes 8 more minor diseases in coverage

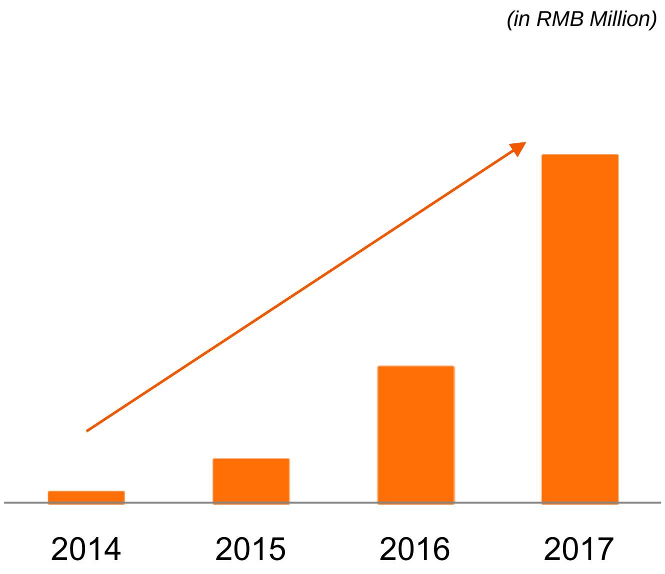
2015
- Ping An Fu upgrade, disease coverage expand to 45 types diseases
- Launch O2Odrivers accident protection product

2016
- Market segmentation, launch Kids' Ping An Fu
- Launch Ping An RUN, expand Ping An Fu's coverage to 80 types DD+20 types minor disease

2017
- Satisfy customers' every possible needs, launch Long term care product
- Ping An Fu further upgrade, sum assured increases after minor disease benefit payout

Contribute operating variance

Fast Growth of Operating Variance



Investment and Operating Variances Resulted from Actual Experience Deviating from Assumptions

Example

- 3-year endowment
- Pricing rate: 3.5%
- Sum-assured: 1103
- Pricing mortality: 5%
- Single pay premiun:1000
- Initial # of policies:100

	Actual experience	Reserve assumption	EV assumption	Operating assumption
Investment rate	6%	4%	5%	5%
Expected interest /Investment return	6000	4000	5000	5000

	Reserve assumption	Actual experience	EV assumption
Mortality	6%	2%	5%
# of deaths	6	2	5
Cost of death	432	144	360

Source of operating earning:

Spread income
= Diff. between operating and reserve assumption
= 5000-4000

Operating variance
= Diff. between actual and reserve assumption
= 432-144

EV:

Investment variance
= Diff. between actual and EV assumption, and factoring in tax effect
= (6000-5000) * (1 – tax rate)

Operating variance
= Diff. between actual and EV assumption, and factoring in tax effect and impact on VIF due to # of policy changes
= (360-144) * (1 – tax rate)
+ (5-2) impact on VIF

Note: (1) Beginning underlying asset equals premium; (2) Cost of death = Sum-assured at risk*# of deaths

ROEV is a Key Measure to the Valuation of Life Company

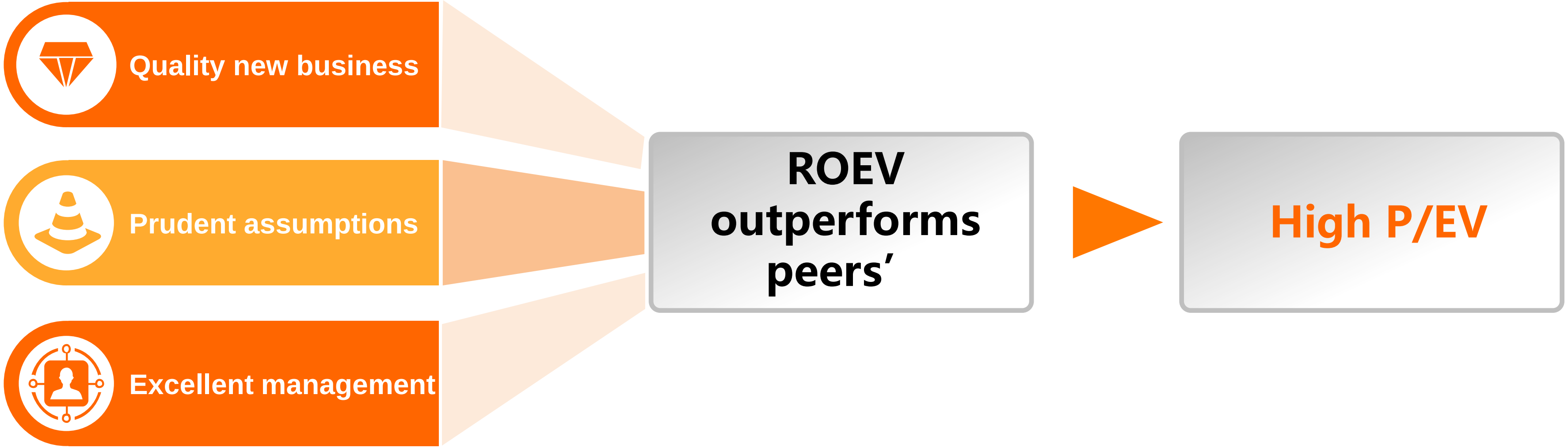
$$P/EV = \frac{ROEV - g}{r - g}$$

The higher *ROEV*, the higher *P/EV*

Apply the 5-year average ROEV of Ping An L&H (24.7%), P/EV is calculated under different RDRs and dividend growth rates:

P/EV example		g：Dividend growth rate				
		3.0%	4.0%	5.0%	6.0%	7.0%
r：RDR	9.0%	3.6	4.1	4.9	6.2	8.9
	10.0%	3.1	3.5	3.9	4.7	5.9
	11.0%	2.7	3.0	3.3	3.7	4.4
	12.0%	2.4	2.6	2.8	3.1	3.5
	13.0%	2.2	2.3	2.5	2.7	3.0

Recap


Quality new business
Prudent assumptions
Excellent management
ROEV outperforms peers'
High P/EV

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Excellent Delivery of High ROE by Mostly All Sectors

(in RMB Million)

2017	Equity attributable to shareholders of the parent company	Portion(%)	ROE(%)
Life & Health	160,450	33.9%	25.7%
P & C	69,804	14.7%	20.0%
Banking	128,791	27.2%	11.6%
Asset Management	103,848	21.9%	15.7%
Fintech and Healthtech	37,772	8.0%	41.2%
Others and elimination	(27,314)	-5.8%	N/A
Group	**473,351**	**100.0%**	**20.7%**

Market Value of the Technology Sector Far Exceeded Equity

Fintech and Healthtech	Market Value
Autohome Inc.	USD9,057mn
Good Doctor	HKD55,804mn
Lufax	USD18,500mn
OneConnect	USD7,500mn
Healthcare tech	USD8,800mn
ZhongAn Online P&C	HKD46,967mn
Other	RMB444mn

Value attributable to shareholders of parent company is 153.8 billion RMB and it is 4.1 times of equity which is 37.77billion RMB.

Note: Market price as at 30/09/2018 were used as listed companies' market value, valuation price in the most recent financing were used for others. And HKD exchange rate of 0.85 and USD of 6.85 were used to convert to values of RMB.

Valuation Framework of Ping An Group

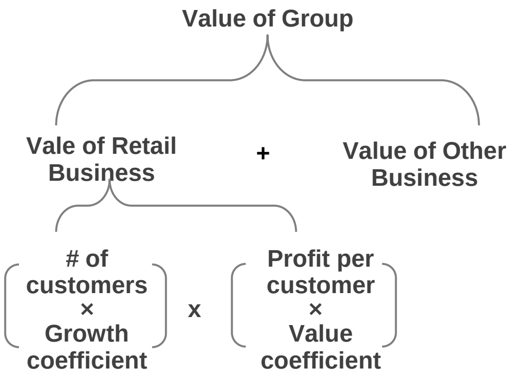
1

Sum of Parts Valuation

Sectors	**Valuation method**
L&H	PEV
P&C	PB
Banking	Market value
Asset Management	PB
Tech	Market value
Adjustment	

2

Customer Economic Model



Thank you!

Appendix: ROEV is a Key Measure to the Valuation of Life Company

Gordon Growth Model

Stock price in theory *P* :

$$P = \sum_{t=1}^{\infty} \frac{D1(1+g)^{t-1}}{(1+r)^t}$$

$$P = \frac{D1}{r-g}$$

Valuation via ROEV

EV operating profit and operating profit are Correlated
Dividend can be expressed in terms of ROEV, consider dividend payout ratio *f* :
$D1 =$ *EV*ROEV*f*

Dividend growth rate g *is related to ROEV and f*

$$g = ROEV * (1-f) = ROEV - ROEV * f$$
$$ROEV * f = ROEV - g$$

$$P/EV = \frac{ROEV - g}{r-g}$$

$ROEV$ is a key valuation measure.
↑ROEV, ↑ P/EV

Note: RDR is assumed to be higher than dividend growth rate